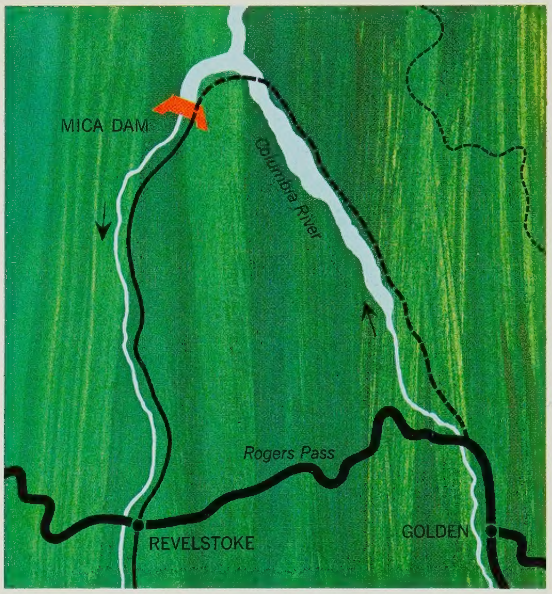
KELLY, DOUGLAS & COMPANY, LIMITED • 1968 ANNUAL REPORT

Cover illustration: MICA DAM

Cal-Van Caterers Ltd., a division of Kelly, Douglas & Company Limited, is proud to have been selected as the caterers providing food and housekeeping services for the immense Mica Dam project which will employ in excess of 1,000 men in its various stages of construction. The catering contract amounts to $5,000,000 and is one of the largest of its type ever awarded in Canada. The $136,261,544 Mica Dam is also one of the largest construction awards in Canada.



The largest of the Columbia Treaty storage dams in British Columbia, Mica Dam will be built at the confluence of the Columbia, Canoe and Wood Rivers 85 miles north of Revelstoke in the wilderness country of the Big Bend.

The dam will have a crest length of 2,600 feet and will tower 800 feet above bedrock. Its construction will require the excavation of 2,800,000 cubic yards of earth and rock and the use of 42,000,000 cubic yards of fill. Plans call for the eventual installation of a large power plant with an ultimate generating capacity of about 2,000,000 kilowatts. The vast reservoir behind the dam will extend 135 miles in all, 80 miles to the south on the Big Bend and 55 miles north along the Rocky Mountain Trench.

Cal-Van Caterers Ltd. will locate its Mica Dam operation in the new mobile camp two miles north of the dam, 8 miles from Mica Creek. Mica is expected to have a population of 4,000 people during peak construction periods.

LITHOGRAPHED IN CANADA LPIU 33L

KELLY, DOUGLAS & COMPANY, LIMITED

1968 ANNUAL REPORT

OFFICERS:

F. B. BROWN, Chairman

V. F. MacLEAN, President

J. BAIRD; Senior Vice-President, Wholesale-Retail Operations

C. M. HUMPHRYS, C.A., Secretary-Treasurer

D. G. GIBBS, C.G.A., Controller

DIRECTORS:

J. BAIRD

F. B. BROWN*

F. MILDRED DOUGLAS†

J. L. FARRIS, Q.C.

C. M. HUMPHRYS, C.A.

J. H. KINNE

V. F. MacLEAN*

A. H. PINKHAM, C.A.

J. J. WEST

**Members of Policy and Administrative Committee*

†J. T. FRASER, *Alternate Director and member of Policy and Administrative Committee*

TRANSFER AGENTS:

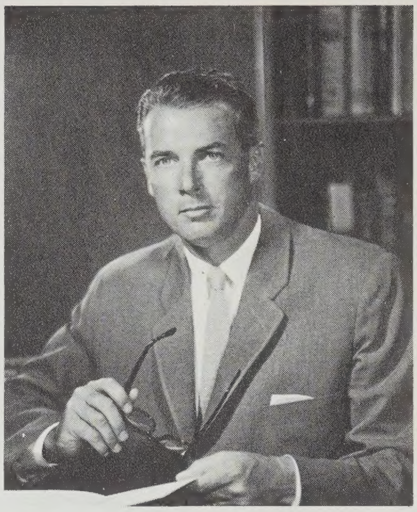
NATIONAL TRUST COMPANY, LIMITED

REGISTERED HEAD OFFICE:

4700 KINGSWAY, BURNABY, B.C.

ANNUAL MEETING: 11 a.m. PDT, August 22, 1968
Kelly, Douglas & Company Limited, Board Room,
4700 Kingsway, Burnaby, B.C.

F. B. BROWN, Chairman.



V. F. MacLEAN, President.

Report of the president

In its 70th year of operation, your Company's financial position closely paralleled that of the food industry in general, with sales up and earnings down.

Our expectations for continued growth in profits were tempered by imbalances in the national economy, and a restraint on food prices through public and competitive pressures.

It should be noted that in order to conform to a new consolidated accounting period, this audited report covers a fiscal year of only 43 weeks. The results for this reduced period show sales of $153,964,672, a 6% improvement compared to sales for the equivalent period last year. Profits for the 43 week period are $1,358,000 after allowing for taxes and all operating charges. Had the Company's year-end been extended to May 31st, as in previous years, the indication is that over 52 weeks sales would be ahead 7.94% to $187 million and profits would be $1,785,424 after taxes and operating charges – a reduction in earnings of 2.60% from 69¢ to 67¢ per share.

During the year, your Company completed the consolidation of all its manufacturing operations in its newly expanded Lake City plant in Burnaby. The additional costs of moving and reorganization and the need for extra personnel to cope with the changeover are reflected in the cost of operations.

One of the big problems confronting the Manufacturing Division is the pressure being applied by the continuing uptrend in wages. Hourly wage rates in British Columbia are 21% higher than in Ontario, and 27% higher than the average for all of Canada. The pressure is also being felt by retail food stores with hourly earnings on the average 24% higher than for Canada as a whole.

Wage increases are a major factor in the inflationary spiral of higher costs and operating expenses. Without any comparative increase in prices or productivity to offset them, they have the effect of further reducing the food industry's already slim margins. The industry has always reacted slowly to passing on price increases and high costs to the consumer, but it cannot continue to absorb these costs indefinitely.

Throughout the year, your Company continued its aggressive program of expansion and made every effort to achieve the highest standards of per-

formance in all departments. Included in this endeavour was the development of several new products in the Manufacturing Division, and the furthering of plans for expansion and eventual consolidation throughout the Wholesale and Cash and Carry branches.

In the Retail Division, the most influential and far-reaching factor governing the trend of profits was the substantial increase in competitive activity on a broad scale.

The discount and convenient food store concepts gained momentum during the year, especially in the major urban areas, and our own moves in this direction have been made with the aim of maintaining competitive prices by achieving greater operating efficiencies and expanding our retail facilities in consort with larger compatible merchandising units.

Because of the share it takes of disposable income, and because it is the most vital of all commodities, food holds a priority position in the minds of consumers. Food prices are under constant consumer surveillance and increases often bring instant and loud reaction.

What consumers seem to overlook is that the food industry's share of disposable income is lower now than at any other time in history. The figure has decreased year after year, from around 50% at the turn of the century to under 18% today. At the same time, Canadians are eating better than at any other time in history. In 1946, an average hour's wage in the manufacturing sector of the economy purchased 1.9 pounds of pork. Last year the figure was 2.8 pounds. One hour's average wage last year would buy the consumer 3 dozen more eggs than could have been bought with one hour's earnings in 1946, 2 quarts more of milk, 22 pounds more of potatoes, 2.7 pounds more of butter, and 16 pounds more of sugar.

Despite the obvious fact that food prices have fallen behind the overall increase in wages and the cost of living in recent years, they have become the focus of attention at all political levels. In order to maintain an essential and reasonable degree of profit, the retail section of the industry has had to resort to opening discount stores which eliminate many conveniences and services and keep labour costs to a minimum, a factor which has considerably reduced opportunities for employment.

In line with its plans for expansion and diversification, your Company has acquired a controlling interest in Cloverdale Paint and Chemical Ltd., which services our retail stores and an Industrial Department, now under development, with a full line of paints, preservatives and waxes. Cloverdale expanded its retail operations during the year by opening three new convenience paint stores, and further expansion is underway.

Income from our Catering Division declined for the 43-week fiscal year due to the termination of several substantial catering contracts and the general postponement of many major industrial projects resulting from high interest rates and a slow down in the economy. It is expected, however, that this situation is only temporary and prospects for this division, bolstered by the large Mica Dam catering contract, are highly favourable. During the year the Company acquired United Industrial Caterers Ltd., a mobile caterer based in British Columbia.

The Company negotiated a new two year contract with its Employees Association which has certification for the Company's manufacturing and wholesale operations, warehouse and office staff. This called for an increase over a two year period. In the Retail Division, the Retail Clerks and the Butchers also settled on a new two year contract. Wages absorbed in the Company's operations, resulting from these new contract agreements, amounted to $750,000.

The officers and directors of the Company acknowledge with gratitude the contributions of the many outstanding employees, whose interest, concern and hard work have played a vital role in our continued growth. With their enthusiasm and help, we look towards even greater success for the Company in the years ahead.

It is also a pleasure to thank the directors for the interest and support they have contributed on your behalf.

VICTOR F. MacLEAN,

Victor MacLean

President.

The manufacturing division

In addition to the problem of merging the Company's manufacturing operations in one plant, severe price competition resulted in lower than normal profits in the early part of the year. However, following the adjustment period, the cost of operations in the new facilities was reduced, sales improved, and the Company's share of market in coffee, tea and new convenience products enjoyed stronger than normal gains.

The Company is engaged in the development of a number of new products. Three of these were introduced to consumers during the year, were well promoted and won immediate acceptance. They were Sungold Orange Flavor Crystals, Squirrel Peanut Butter and Jam, and Nabob "Electric-Perk" Coffee.

The Manufacturing Division was rewarded in the past year with four Brussels Food Fair Gold Medal awards. These World Selection awards are based on quality, appearance, flavour, purity and product excellence. Our products so honoured in this world competition were Nabob Raspberry Jam, Nabob Seville Orange Marmalade, Nabob Strawberry Jam and Squirrel Peanut Butter.

Recent studies made in the United States have shown that new items now contribute 57% of the total dollar margin of the modern supermarket. These items not only come on to the market at higher prices but tend to maintain those prices. It has also been found that old established items other than staple foods are having shorter and shorter life cycles.

Coffee Department

Adequate stocks of all types of coffee suitable to sustain Nabob's high standard of quality were difficult to maintain during the year because of problems encountered under the International Coffee Agreement quota system. This situation was complicated also by the lack of ocean transportation from countries of origin because a large number of ships had been diverted to the Vietnam supply route.

Despite these problems Nabob Coffee maintained its superior quality standards and continued to hold its number one position in share of market among the major producers in Canada. The Brand accounted for 53% of all national packs of ground coffee sold in Western Canada.

Canadians consumed 2.02 cups of coffee per day last year compared with 2.18 cups in 1966. Daily consumption per capita was highest in British Columbia – 2.78 cups per day – a circumstance that is due, in good measure, to the consistent and widely recognized high quality of Nabob Coffee.

Tea Department

This department's Nabob DeLuxe brand continues to maintain its strong share of the market in Western Canada. Nabob tea ranks third in sales in Canada and continues its policy of maintaining the best quality teas available for each blend, including economy brands.

Confections and Sundries Department

The Nabob lines of pre-cooked puddings, deserts, jelly powders and drink mixes continued to show good sales growth. The new items in our line of convenience foods won rapid acceptance with Western Canadian consumers, again pointing up the importance of developing new products. It has been found that convenience items have a strong consumer appeal and tend to have a faster turnover rate than standard items. Their margin performance is also superior.

Peanut Butter

Our line of Squirrel Brand Peanut Butter continued to do well in all markets and has proven very popular with the expanding youth population. A new line of Squirrel Peanut Butter and Jam, introduced during the year, was very well received and gained a greater degree of grocery store shelf space than we had anticipated.

The retail division

The Company operates 82 independent and Company-owned Super-Valu stores under its Franchise Plan. Four new stores were built and six were completely remodelled in the interests of greater operating efficiency and customer satisfaction.

Continued store expansion is planned in the new fiscal year and the decisions on how and where to expand are based on comprehensive market and consumer analyses. The aim is to determine merchandising objectives and procedures that will give the Division the strongest competitive advantages, and future expansion may take the form of a new concept in food retailing.

As mentioned in the President's Report, the retail food industry has been operating under consumer surveillance of prices while having to face the constant upward pressure of mounting costs throughout the entire structure of its business. Any future increase in the price of food will be as the result of these pressures and not the result of any attempt by the industry to arbitrarily expand its profits.

During the year, the Super-Valu chain continued to improve its sales which reached the highest level on record.

It also increased its share of the total British Columbia retail food market, helped to a large degree by its concentration on those areas showing the most rapid population growth.

Super-Valu stores remain among the brightest, most modern and friendliest grocery stores in which to shop. Continued emphasis is being placed on new convenience departments such as the on-premise bakeries which provide fresh bread daily in as many as 25 varieties and also sell a wide range of fresh-baked cakes, pastries, cookies, doughnuts and pies. The Super-Valu delicatessens, featuring a broad selection of prepared foods, have proven very successful and maintain a high level of quality and service for the convenience of busy shoppers.

The Company's operation of Kim Drug units offering low-cost prescription service is another of the many constructive moves being made to provide a firm foundation for continuing growth in the retail division.

These new departments are an area of expansion which the Company will continue to emphasize, in order to bring ever improved one-stop shopping to our customers.

The wholesale division

The Wholesale Division showed a most favourable performance in the shortened fiscal period by increasing its sales over the previous year. Further improvement in the Wholesale Division will require expansion in new areas, to achieve continuing efficiencies and economies in distribution costs.

At this time of reporting, negotiations are under way to expand and centralize meat cutting in an effort to produce uniform quality, reduce delivery costs, provide better inventory management and improve utilization, the aim being to give the consumer better service while reducing the cost of retail meat department operations.

It is interesting to note that such centralized meat service and distribution centres are expanding rapidly throughout the U.S. supermarket chains. In the Los Angeles area, for example, only one major chain is now without a meat centre.

Catering division

During the year, the Company acquired United Industrial Caterers Ltd., a British Columbia based mobile caterer. Negotiations are proceeding to expand the Company's interest in mobile catering which would add further economies to this branch of the Catering Division. In our overall catering contracts, $8,000,000 in new business was undertaken during the 43 weeks ended March 31, 1968.

KELLY, DOUGLAS

Consolidated balar

ASSETS		Comparable figures as at June 3 1967
CURRENT ASSETS:		
Accounts receivable	$ 6,847,879	$ 7,197,821
Inventories, at the lower of cost or market	18,147,316	16,384,744
Prepaid expenses	503,121	488,246
	25,498,316	24,070,811
PROPERTIES HELD FOR SALE UNDER LEASE-BACK ARRANGEMENT, at cost	1,722,359	2,163,977
	27,220,675	26,234,788
FIXED ASSETS:		
Land, at cost	548,441	479,373
Buildings, machinery and equipment, at cost	23,447,125	22,469,491
Less –		
Accumulated depreciation	12,046,986	11,198,884
	11,400,139	11,270,607
	11,948,580	11,749,980
OTHER ASSETS:		
Deferred accounts receivable, sundry investments, etc. (Note 2(b))	1,168,493	723,497
Special refundable tax	83,987	151,639
Unamortized debenture discount	71,631	77,833
Excess of cost of shares in subsidiaries over their underlying net book value at dates of acquisition (net), and purchased goodwill	722,892	701,397
	2,047,003	1,654,366
	$41,216,258	$39,639,134

APPROVED ON BEHALF OF THE BOARD:

Victor F. MacLean, *Director.*

C. M. Humphrys, *Director.*

OMPANY, LIMITED AND SUBSIDIARY COMPANIES

sheet as at March 30 1968

LIABILITIES		Comparable figures as at June 3 1967
CURRENT LIABILITIES:		
Bank indebtedness (net) – secured	$ 3,719,893	$ 1,475,626
Short term notes payable	3,200,000	5,200,000
Accounts payable and accrued liabilities	10,089,799	9,733,729
Bills payable	208,415	286,490
Current portion of long term debt (Note 1)	96,880	137,147
Income taxes payable	843,934	700,251
	18,158,921	17,533,243
LONG TERM DEBT (Note 1)	2,077,449	2,261,133
DEFERRED INCOME TAXES (Note 4)	959,108	1,303,211
MINORITY INTEREST IN SUBSIDIARY COMPANY (Note 4)	33,684	—
	21,229,162	21,097,587
SHAREHOLDERS' INTEREST		
SHARE CAPITAL (Note 2):		
Authorized –		
20,000 4½% cumulative redeemable preference shares – par value $100 each		
2,000,000 cumulative participating Class "A" shares of no par value		
3,000,000 Class "B" shares of no par value		
Issued –		
1,050,107 Class "A" shares	2,645,389	2,645,389
1,618,125 Class "B" shares	1,677,187	1,677,187
CAPITAL SURPLUS – created on redemption of preference shares	774,000	774,000
RESERVE FOR CATERING CONTRACT CONTINGENCIES	—	100,000
RETAINED EARNINGS – per statement attached	14,890,520	13,344,971
	19,987,096	18,541,547
LONG TERM LEASES (Note 3)		
	$41,216,258	$39,639,134

Consolidated statement of profit and loss

	43 weeks ended March 30 1968	52 weeks ended June 3 1967
Sales of products and services	$153,964,672	$173,522,832
Profit from operations before taking into account the undernoted items (Note 5)	$ 4,603,015	$ 6,127,240
Deduct –		
Allowance for depreciation	1,432,903	1,605,015
Debenture interest	97,407	126,045
Bank and other interest	350,737	555,531
Amortization of debenture discount	6,202	7,501
Retirement payments	30,230	38,721
Plant relocation expenses	69,052	99,112
Gain on disposal of fixed assets (net)	(66,542)	(8,787)
	1,919,989	2,423,138
Profit before providing for income taxes	2,683,026	3,704,102
Income taxes:		
Current	1,370,803	1,558,789
Deferred (Note 4)	(45,803)	312,211
	1,325,000	1,871,000
Net profit for the period	$ 1,358,026	$ 1,833,102

Consolidated statement of retained earnings

	43 weeks ended March 30 1968	52 weeks ended June 3 1967
Balance at the beginning of the period	$ 13,344,971	$ 11,874,394
Accumulated deferred income tax charges (net) (Note 4)	284,414	—
	13,629,385	11,874,394
Add –		
Net profit for the period – per statement attached	1,358,026	1,833,102
Transfer from (to) reserve for catering contract contingencies	100,000	(100,000)
	15,087,411	13,607,496
Deduct –		
Dividends on Class "A" shares (Note 2 (a))	196,891	262,525
Balance at the end of the period	$ 14,890,520	$ 13,344,971

Notes to consolidated financial statements as at March 30 1968

1. Long term debt consists of:

		Comparable figures as at June 3 1967
6% Sinking Fund Debentures, Series A, maturing November 1 1977 – annual sinking fund instalment $100,000	$2,000,000	$2,100,000
Other	266,329	398,280
	2,266,329	2,498,280
Less –		
Debentures purchased for sinking fund purposes and deposited with trustee	92,000	100,000
Instalments due within one year	96,880	137,147
	188,880	237,147
	$2,077,449	$2,261,133

2. (a) The company's Class "A" shares entitle the holders thereof to fixed, cumulative, preferential cash dividends of 25¢ per share per annum payable quarterly. Any further dividends on the company's common shares shall be paid firstly to the Class "B" shareholders to the extent of 25¢ per share per annum plus the amount (if any) by which 25¢ exceeds their dividends in the preceding year, and thereafter in equal amounts per share to the Class "A" and Class "B" shareholders.

(b) Included with deferred accounts receivable, sundry investments, etc. are 41,133 Class "B" shares in the parent company held by a subsidiary at a cost of $41,133.

3. In addition to the buildings owned and occupied by the companies, three manufacturing plants, fourteen distribution centres and forty-eight retail stores are occupied by them under lease agreements, the majority on a long term basis. Also, the parent company has entered into long term leases on fifty stores which are sub-leased to independent operators.

As at March 31 1968 the rentals under lease agreements are payable as follows:

For the five years ending March 31 1973	$ 9,166,522
For the five years ending March 31 1978	7,980,833
For the five years ending March 31 1983	6,078,339
For the five years ending March 31 1988	4,810,219
For the five years ending March 31 1993	2,698,774
Subsequent to March 31 1993	1,235,086
	$31,969,773

4. It has been the company's practice to provide for deferred income taxes in respect of capital cost allowances claimed for income tax purposes in excess of amounts reported in the financial statements. In the fiscal year ended March 30 1968, the basis of accounting for income taxes was extended to include all other differences between taxable income and that reported in the financial statements in order to comply fully with the recent recommendations of the Canadian Institute of Chartered Accountants. As a result of this change, deferred income tax charges (net) accumulated to June 3 1967 have been recorded by a transfer to retained earnings of $284,414 and a transfer to minority interest of $13,886. This change had no material effect on net earnings for the period ended March 30 1968.

5. During the forty-three weeks ended March 30 1968 aggregate remuneration of directors and senior officers amounted to $160,000 ($185,550 for the fifty-two weeks ended June 3 1967).

Consolidated statement of source and application of working capital

	43 weeks ended March 30 1968	52 weeks ended June 3 1967
Source:		
Net profit for the period	$1,358,026	$1,833,102
Add –		
Depreciation	1,432,903	1,605,015
Deferred income taxes	(45,803)	312,211
Amortization of debenture discount	6,202	7,501
	2,751,328	3,757,829
Minority interest in subsidiary company	19,798	—
Decrease (increase) in special refundable tax	67,652	(142,539)
	2,838,778	3,615,290
Application:		
Additions to fixed assets (net)	1,631,503	3,035,842
Increase in deferred accounts receivable, sundry investments, etc.	444,996	1,810
Decrease in long term debt	183,684	119,529
Excess of cost of shares acquired during the period over net book value thereof, and purchased goodwill	21,495	319,056
Dividends	196,891	262,525
	2,478,569	3,738,762
Increase (decrease) in working capital	360,209	(123,472)
Working capital at beginning of period	8,701,545	8,825,017
Working capital at end of period	$9,061,754	$8,701,545

Auditors' report

To the Shareholders of
Kelly, Douglas & Company, Limited:

We have examined the consolidated balance sheet of Kelly, Douglas & Company, Limited and its subsidiary companies as at March 30 1968 and the consolidated statements of profit and loss, retained earnings and source and application of working capital for the forty-three weeks then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying financial statements present fairly the financial position of the companies as at March 30 1968, and the results of their operations and the source and application of their working capital for the forty-three weeks then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal period except for the change (which we approve) in the method of computing deferred income taxes referred to in Note 4 to the consolidated financial statements.

July 22, 1968
Vancouver, B.C.

PRICE WATERHOUSE & CO.
Chartered Accountants.

KELLY, DOUGLAS & COMPANY, LIMITED AND SUBSIDIARY COMPANIES

10 year historical summary

FINANCIAL RATIO AND VALUES (thousands of dollars)

Fiscal Year	Current Ratio	Sales to Av. Inventory	A/C Receive. (Av.) – Days	Working Capital	Net Property & Equipment	Total Assets	Shareholders' Investment Total	Shareholders' Investment $ Per Share	Shareholders' Investment Annual Increase
1968 (43 weeks)	1.50-1	10.8	14	$9,062	$11,949	$41,216	$19,987	$7.49	7.8%
1967 (full year)	1.50-1	11.2	14	8,702	11,750	39,639	18,542	6.95	9.3
1966 " "	1.59-1	11.2	14	8,825	10,319	35,228	16,971	6.36	6.7
1965 " "	1.79-1	10.0	13	8,774	8,296	28,889	14,770	5.96	7.6
1964 " "	1.78-1	10.6	12	8,363	7,786	27,464	13,715	5.54	6.3
1963 " "	1.63-1	10.1	13	7,319	8,609	28,230	12,856	5.21	5.9
1962 " "	1.93-1	10.1	13	8,044	7,247	24,546	12,167	4.92	6.0
1961 " "	1.95-1	9.8	11	7,840	7,089	23,776	11,456	4.64	7.4
1960 " "	2.10-1	9.5	12	7,598	6,839	21,835	10,592	4.32	8.0
1959 " "	2.19-1	8.8	13	7,664	5,981	20,556	9,755	4.00	16.3

OPERATING (thousands of dollars)

Fiscal Year	Net Sales	Operating Income	*Rental Payments	Debenture Interest	Depreciation Provided	Income Taxes	Net Income	Shareholders' Cash Flow
1968 (43 weeks)	$153,965	$5,790	$1,577	$ 97	$1,433	$1,325	$1,358	$2,839
1967 (full year)	173,522	7,202	1,767	126	1,605	1,871	1,833	3,758
1966 " "	154,424	6,148	1,552	130	1,288	1,630	1,548	3,108
1965 " "	130,418	5,205	1,392	138	1,061	1,348	1,266	2,410
1964 " "	119,281	4,624	1,308	145	1,013	1,085	1,073	2,085
1963 " "	113,049	3,982	1,135	150	963	830	904	2,028
1962 " "	106,129	4,104	1,129	159	874	904	1,038	2,012
1961 " "	106,238	4,089	1,036	171	822	1,020	1,040	1,891
1960 " "	102,059	3,732	836	176	758	950	1,012	1,867
1959 " "	104,215	4,019	607	192	647	1,260	1,313	2,132

*Including Stores Subleased to Independent Operators.

OPERATING RATIOS AND VALUES

Fiscal Year	Operating Margin	*Rent & Debenture Interest Coverage	Net Margin	Return on Average Equity	Earnings Per Share	Annual Increase	Cash Flow Per Share	Dividends Per Class "A" Share
1968 (43 weeks)	3.76%	3.67	.88%	8.52%	$.51	(10.7%)	$1.06	$.19
1967 (full year)	4.15	3.80	1.05	10.32	.69	18.4	1.41	.25
1966 " "	3.98	2.78	1.00	9.75	.58	13.7	1.16	.25
1965 " "	3.99	2.93	.97	8.89	.51	18.6	.97	.25
1964 " "	3.88	3.14	.90	8.08	.43	11.9	.84	.25
1963 " "	3.52	3.22	.80	7.23	.36	(14.3)	.82	.25
1962 " "	3.87	3.14	.98	8.79	.42	—	.81	.25
1961 " "	3.85	2.95	.98	9.43	.42	2.4	.77	.25
1960 " "	3.66	2.70	.99	9.95	.41	(24.1)	.76	.25
1959 " "	3.86	5.03	1.26	14.33	.54	8.0	.88	.25

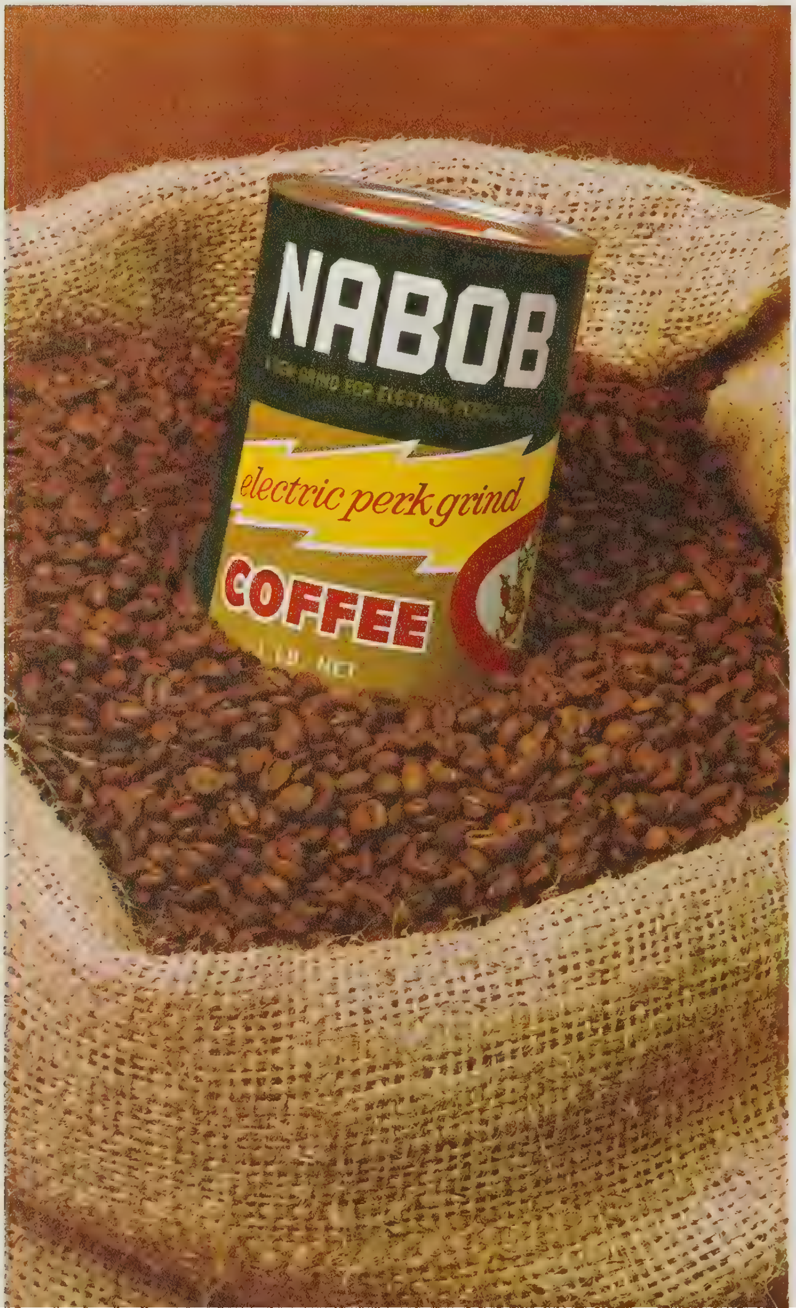
*Including Stores Subleased to Independent Operators.

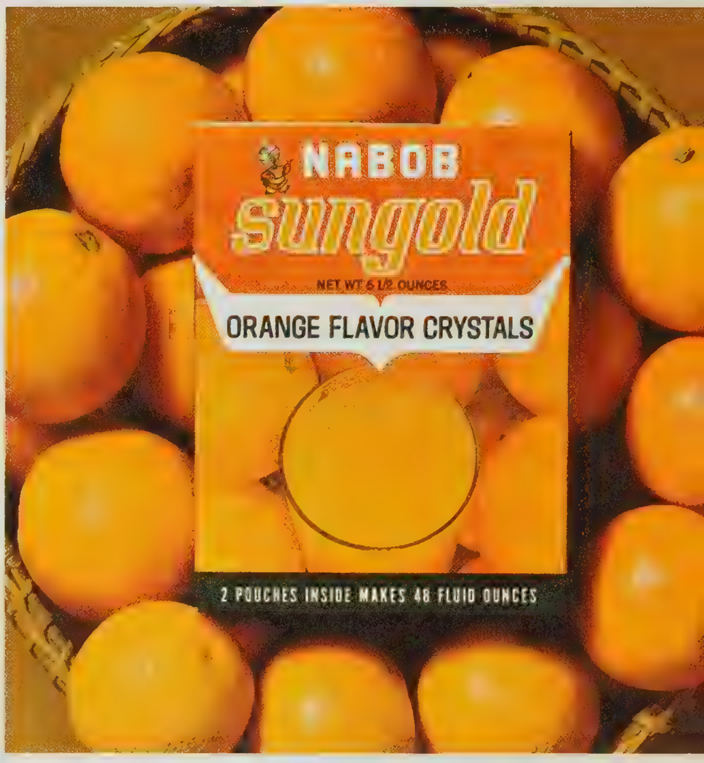
3 new quality products for the Nabob line:

Nabob Sungold orange fruit drink provides the economical answer for healthful beverages for the whole family. Fruit crystals dissolve instantly in water.

Squirrel Peanut Butter and Jam is a new taste treat bringing together two childhood favourites. Nabob Strawberry Jam and Squirrel Peanut Butter combine to give consumers top quality and nutrition.

Nabob "Electric-Perk" is a new coffee especially roasted and ground for automatic electric percolators. The convenient vacuum-packed tin protects freshness and flavour.





KELLY, DOUGLAS & COMPANY, LIMITED

ANNUAL REPORT 1968

KELLY, DOUGLAS & COMPANY, LIMITED
1968 ANNUAL REPORT

OFFICERS:

F. B. BROWN, Chairman

V. F. MacLEAN, President

J. BAIRD, Senior Vice-President, Wholesale-Retail Operations

J. L. DAMPIER, Vice-President, Nabob Foods Operations

C. M. HUMPHRYS, C.A., Secretary-Treasurer

D. G. GIBBS, C.G.A., Controller

DIRECTORS:

J. BAIRD

F. B. BROWN*

J. L. DAMPIER

F. MILDRED DOUGLAS†

J. L. FARRIS, Q.C.

C. M. HUMPHRYS, C.A.

J. H. KINNE

V. F. MacLEAN*

A. H. PINKHAM, C.A.

J. J. WEST (deceased February 6th, 1969)

**Members of Policy and Administrative Committee*

†J. T. FRASER, *Alternate Director and member of Policy and Administrative Committee*

TRANSFER AGENTS:

NATIONAL TRUST COMPANY, LIMITED

REGISTERED HEAD OFFICE:

4700 KINGSWAY, BURNABY, B.C.

ANNUAL MEETING: 11 am, PST, April 17, 1969
Kelly, Douglas & Company, Limited, Board Room,
4700 Kingsway, Burnaby, B.C.

REPORT OF THE PRESIDENT

Your Company's seventy-first year of operation was distinguished as one of achievement and growth. On a comparative basis, sales and earnings of the Company were the highest on record and we are directed towards a programme of continuing improvement.

Because of our new consolidated accounting period, this audited report covers a fiscal period of 39 weeks, ending December 28, 1968. The results for this period show sales of $150,828,801, a 5.98% increase as related to the comparable 40 weeks of the previous year. Net income from all operations, after deducting income taxes and operating charges, attained a record high of $1,503,314, an increase of 21.29% above the comparable period of last year and well above the national food industry average.

These results were achieved during a time of considerable stress on the food industry in general and retail food stores in particular. During 1968, the cost of labour, transportation, materials and supplies continued to exert an upward pressure on operating expenses which was by no means offset by the relatively small percentage increases in retail food prices. It is notable that, despite inflation, today's consumer food bill takes a smaller percentage of disposable income than at any previous time in history. Of further interest is the fact that in British Columbia, although food costs an average of only 1% more than in Manitoba, wages are 25% higher.

Much of the Company's improvement in earnings arose not from increased food prices but from new aggressive programmes of consolidation within the Company's various divisions, diversification into promising new areas of opportunity, and new efficiencies in the Company's Wholesale, Retail, Manufacturing and Industrial operations.

Diversification has been significantly helpful in times of economic uncertainty; improvements in one division go a long way towards counter-balancing temporary difficulties in another.

The Company directly benefits from being able to concentrate its efforts in the rapidly growing British Columbia market with its high rate of population growth (more than double the Canadian average) and its high level of per capita income, which in 1968 rose 6% over 1967.

British Columbia's future has never looked brighter. The middle and upper income groups now are the fastest growth segments of the population and it is estimated that 20% of the people will be making from $10,000 to $15,000 a year as early as 1975. By the end of the century, the average family income in British Columbia will have risen to $20,000, from today's $5,000, according to a report of the 1968 Economic Outlook Conference held in Vernon. The Conference also estimated that retail sales would be ten times the current level of $2.5 billion.

This dramatic pattern of growth implies that the inflationary trends will continue rather than subside. The purchasing power of today's dollar in relation to 1949 is only 65¢ and by 1980, with continued inflation, it will be worth only 48¢.

The continuing upward pressure of wages and prices should be regarded as an exercise in futility, incurring as it must, more taxes, more erosion of values and a drastic effect on all those segments of our population who rely on some form of fixed income, pension or other means of support for their livelihood.

The outlook for substantial growth in all sectors of the British Columbia economy is already apparent and your Company is planning new stores, warehouses and other facilities to take full advantage of the most strategic locations in potential high growth areas.

In the 39 week fiscal period of 1968, excellent progress was made in the Company's Retail and Wholesale Divisions. Retail sales improved 11.86%, well above the Canadian increase of 7.1% and the British Columbia increase of 9.8%, which covered the entire year.

Although no new stores were added to the Super Valu chain, four existing stores were remodelled for greater efficiency and consumer convenience, and the chain acquired four stores owned and operated in the Greater Vancouver area by Loblaw Groceterias Co., Limited. Results of the four newly acquired stores are not materially reflected in sales or operating results for the 39 weeks.

Kim Drugs Ltd. improved their prescription business 50% above the previous year. In our Restaurant Division, Dickson Importing Co. Ltd. improved both sales and profits. Despite aggressive competition, Dickson continues to maintain in excess of 75% of the restaurant market in British Co-

lumbia, as well as a growing penetration of the Alberta market. Meteor Meats (a new centralized meat-cutting operation) was equipped and staffed to process block-ready meat. This operation will enable central cutting and standardization of cut and trim, exert further quality control on the packaging and preparation of fresh sausage for the Retail Division, and add to the efficiency of the Catering Division.

Sales continued on a remarkably strong note in the Wholesale Division, but profits were softer than anticipated due to exceptionally brisk competition at retail level and unprecedented increases in the cost of labour. British Columbia has the highest labour rates in Canada and it is significant to see the rate of dollar return against sales volume diminishing slightly each year due to an increased tempo in competition, high wages and the reluctance of chain stores to raise prices to a realistic level.

The growing number of discount stores in British Columbia has made it relatively difficult for supermarkets to operate at more than minimal profits. The word discount is a misnomer and in some areas has come to principally manifest its existence in stores lacking service, quality and selection of merchandise.

Discount prices are achieved at the cost of convenience and facilities, and necessitate a lower ratio of staff to sales volume.

The Company's Manufacturing Division (Nabob Foods Limited) had an excellent year. Gains were made in sales and earnings derived from coffee, tea, syrups, sauces, mixes, desserts, beverages and jam. A more economical and efficient operation resulted from the consolidation of the spice, sundry and jam manufacturing facilities in the Nabob premises at Lake City and also from the ultimate decision to close down the candy department due to non-competitive, unrealistic labour costs and a reduction in per capita consumption. The loss in candy sales was more than offset by sales of new products, and space previously used for making candy will now be put to more effective and profitable use.

The Company's interest in Cloverdale Paint & Chemicals Ltd. has been justified by the excellent rate of growth, with sales up 27.6% over the previous fiscal period. Our Industrial Paint Division now manufactures end-seal and other spray products for the lumber industry and has met with considerable success in these endeavours. New Cloverdale production facilities being built in Newton, British Columbia, will enable the company to manufacture an extensive range of products with a greater degree of efficiency and profitability and also receive raw materials on a more economical basis via rail shipments.

Following two successful years, our Catering Division showed declines in both sales and profits for the 1968 fiscal period. These results are attributed to the completion of a number of major construction jobs, the high cost of capital, creating a slow down in some instances, curtailment in construction and general expansion and persistently adverse weather conditions in the winter months. A number of excellent new contracts have been acquired recently in the Canus and Cal Van Divisions and, although these have not peaked at their maximum camp strength, such large assignments as the Eurocan Pulp Mill site in Kitimat and the Kaiser Coal development in Fernie will substantially increase overall catering volume. Mobile catering volume improved due to the acquisition and subsequent merging of Inter City Mobile Caterers with United Mobile Caterers.

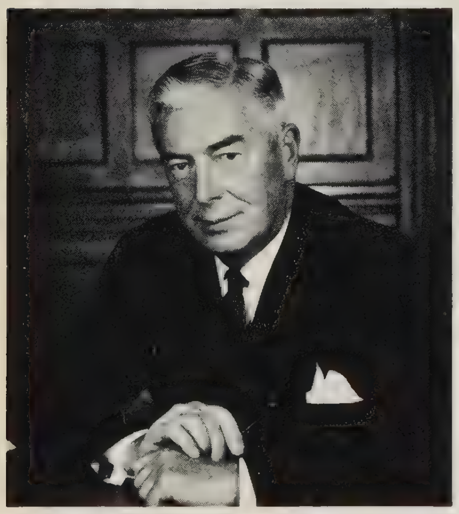
It is a distinct pleasure to welcome to your Board of Directors J. Lawrence Dampier who has been appointed Vice President and General Manager of Nabob Foods Operations.

Your Directors and Management confidently expect further excellent results in 1969. Such continuing progress would not be possible without the knowledge, experience, loyalty and initiative of our employees.

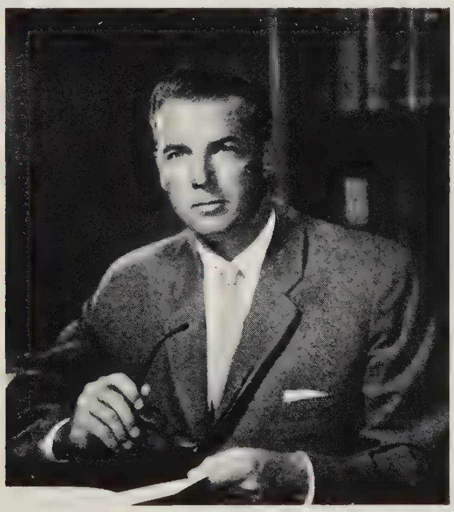
It is also a pleasure to thank the Directors for the confidence they have shown and for the interest and support they have contributed throughout the past year on your behalf.

Victor F. MacLean,

President.



F. B. BROWN, Chairman.



V. F. MacLEAN, President.

THE MANUFACTURING DIVISION

1968 was a vigorous year for Canadian food sales and this is reflected in the performance of Nabob Foods Limited. The percentage gain in total industry sales was more than the percentage gain in Canada's population and the trend appears to be continuing.

The main driving forces behind this outstanding achievement were the substantial rise in per capita income compared to the rise in the cost of living and the fact that a larger proportion of personal income is now being used for discretionary spending. More and more housewives are finding that once they have purchased what they need in the way of food requirements and other necessities for their families, they have money left over to direct into luxuries, comforts and recreational pursuits which they have not previously been able to afford. One result of this is that a higher percentage of supermarket sales is now derived from higher priced lines of foods and household aids and a growing number of new products.

The importance of new products cannot be over-emphasized. Over 5,000 items now available in grocery stores were unknown ten years ago. A. C. Nielsen, the international marketing research firm, reports that in the United States almost all of the annual sales gains in groceries are derived from new items. This trend is also taking place in the Canadian grocery trade.

New products developed by Nabob Foods Limited performed especially well in most market areas. They include Squirrel Peanut Butter and Jam, Peanut Butter and Honey, Peanut Butter and Simulated Bacon, the Sungold line of fruit-flavour crystals and a new line of Nabob pouch pack sauces and spices. Additional products are now being developed on a selective basis, and all new items are test marketed before being approved.

Coffee Department

During fiscal 1968, coffee sales increased and the Nabob brand not only maintained its number one position among the major producers of Canada, but increased its share of the market to 54% of all national packs of ground coffee sold in Western Canada.

At the 21st Annual Convention of the Tea and Coffee Association of Canada it was reported that Canadians are drinking more coffee and tea than ever before and that the trend is continually increasing, despite rising costs and complications arising out of the International Coffee Agreement, 1968.

Tea Department

Combined sales of Nabob tea lines increased their share of market dramatically for the fiscal year from 22.6% to 25.38%. The Nabob Deluxe brand continued to hold its share of the market in Western Canada and good gains were made by lower priced lines. Nabob Tea ranks third in Canadian tea sales.

Confections and Sundries Department

The Company's candy operation was closed last year due to wage differentials that enabled Eastern suppliers to undersell this market, and substantially higher world prices of the main ingredients, sugar and cocoa. Severe competition, federal sales taxes and a reduction in per capita consumption were other factors leading to the closure.

In other areas of the Nabob Division there were excellent improvements. Good sales gains were made by Nabob pancake and waffle syrup, jams, jellies and marmalades – particularly Nabob strawberry jam which was a standout and won, for the third consecutive year, the top award at the World Selection for Canned Food Products held in Europe. The World Selection awards are based on quality, appearance, flavour, purity and product excellence.

Peanut Butter

The sales of Squirrel Peanut Butter improved during the year to the highest level on record. This achievement was helped by the widespread consumer acceptance of new lines.

During the year peanut prices advanced sharply, as a result of surplus American stocks being withdrawn from sale to Canadian markets.

The strong continuing acceptance of all Nabob's manufactured products, both of its well established lines and of those new products just reaching the consumer, is founded and fortified by the integrity of supplying and maintaining only top quality in all its products.

THE RETAIL DIVISION

The Company now operates 87 Independent and Company-owned Super Valu Stores under its Franchise Plan. No new stores were built in 1968 but four existing stores were completely remodelled and the chain acquired four Loblaw Stores located in the Greater Vancouver area. These four stores are in key population areas; a Robson Street apartment complex and shopping centre, the large Brentwood Shopping Centre in Burnaby, the new Richmond Square shopping centre in rapidly growing Richmond municipality and Capilano Mall shopping centre in North Vancouver.

Plans for 1969 include the construction of a number of new Super Valu Stores at strategic locations throughout British Columbia and the renovation of several existing premises.

The Retail Division performed creditably during the year and benefited from greater operating efficiency, increased consumer spending power and the growth in population. The retail potential, however, is far greater than the realization. The grocery trade in British Columbia is intensely competitive and the rapid expansion

in 1968 of discount store operations kept profit margins well under what are justified in a free economy for an industry of such size and importance. Although food prices have taken the brunt of consumer criticism in recent years they have not kept pace with the overall upward trend in costs that the industry has experienced and is continuing to experience in all its phases.

Over the years it has been the policy of Super Valu Stores to provide the best quality produce, oven-fresh baked goods in all new major locations, top quality meat selected, registered and aged to perfection, brand name items and in-store service for its many thousands of customers.

The stores are designed so that a housewife can shop in a relaxed frame of mind without confusion or pressure. The "good buys" in Super Valu Stores are as plentiful and prominently displayed as those in discount stores.

Super Valu provides the convenience of in-store bakeries which provide as many as 17 varieties of fresh bread every day as well as a wide range of cakes, pies and pastries. Wedding cakes are a special feature of these departments. Super Valu delicatessens are also gaining popularity and in a number of locations offer pre-cooked meals ready for the table.

Kim Drugs now has five units in British Columbia and additional units will be added as suitable locations become available. The low cost prescription business at Kim Drugs improved approximately 50% in 1968.

THE WHOLESALE DIVISION

In assessing our Wholesale Branch Operations, all branches – Cash & Carry depots, Service Jobbing and Frozen Foods – showed excellent gains during the 39 week period. Only three branch areas out of eleven showed signs of softness and these were attributed to exceptionally brisk retail competition.

This Division is at the forefront of the dynamic changes now being felt at all levels in the food industry. Retail food stores, for example, are becoming major outlets of a multiplying list of non-food classifications such as toys, books and cosmetics. Staple foods such as potatoes are being given specialty attributes that were unknown ten years ago and the number of new products is increasing at a remarkable rate.

To supply today's supermarket, the Wholesale Division must handle more than 9,000 items of which a growing percentage can be classified as new. Old, familiar, slow moving lines are being removed to make way for new items which are being introduced at the rate of 20 to 40 a week. Shelf space is at a premium and today's supermarket operation cannot afford to handle items that do not pay their way or which have shown a pattern of dwindling consumer appeal.

Allocation of retail shelf space is a scientific computerized study of area, income levels, ethnic population, desires, advertising, and pricing policy in force.

CATERING DIVISION

The catering business is cyclical in nature and responds readily to the ups and downs in the economy. In this regard, 1968 was not a good year for industrial catering in British Columbia and Alberta as a number of major projects were completed and others were delayed temporarily pending an improvement in the monetary climate.

However, the outlook is excellent. Both Canus Camp Services Ltd. and Cal Van Caterers Ltd. have acquired large new contracts. In the peak period, the Division expects to be feeding in excess of 8,000 people at camp level.

With the substantial planned construction of pulp mills, mining ventures, refining operations and other projects throughout British Columbia and Alberta, we are highly optimistic about the Division's future growth in sales and its contribution to profits.

Catering is also in the midst of an evolutionary upheaval in new, modern methods of instant feeding, food preservation and scientific nutrition control.

INDUSTRIAL DIVISION

Expansion plans for Cloverdale Paint & Chemicals Ltd. are well advanced and the profit leverage that can be attained from an improvement in sales can be readily judged from the 1968 sales gain of 27.6%, most of which resulted from increased volume in liquid self polishing waxes. Home and industrial construction began to forge ahead again in late 1968 and the demand for paint products and supplies from contractors and homeowners is expected to be strong throughout 1969. New products were developed for the thriving British Columbia forest industry and include an end-seal formula, the acceptance of which indicates strong future sales and an increasing share of market. Cloverdale's expansion into a new plant is being financed out of Division profits and will assist the operation in making further economies.

KELLY, DOUGLAS

Consolidated bala

ASSETS		Comparable figures at March 30, 1968
CURRENT ASSETS		
Accounts receivable	$ 8,386,543	$ 6,847,879
Inventories (Note 1)	20,106,048	18,147,316
Prepaid expenses	548,576	503,121
	29,041,167	25,498,316
PROPERTIES HELD FOR SALE, at cost (Note 2)	2,922,339	1,722,359
	31,963,506	27,220,675
FIXED ASSETS		
Land, at cost	1,052,687	548,441
Buildings, machinery and equipment, at cost	25,985,342	23,447,125
Less accumulated depreciation	13,114,348	12,046,986
	12,870,994	11,400,139
	13,923,681	11,948,580
OTHER ASSETS		
Deferred accounts receivable and sundry investments	983,589	1,168,493
Special refundable tax	9,381	83,987
Unamortized debenture discount	66,005	71,631
Excess of cost of shares in subsidiaries over their underlying net book value at dates of acquisition (net) and purchased goodwill	917,860	722,892
	1,976,835	2,047,003
	$47,864,022	$41,216,258

APPROVED ON BEHALF OF THE BOARD

Victor F. MacLean, *Director.*

C. M. Humphrys, *Director.*

OMPANY, LIMITED AND SUBSIDIARY COMPANIES

sheet at December 28 1968

LIABILITIES		Comparable figures at March 30, 1968
CURRENT LIABILITIES		
Bank indebtedness (net) – secured	$ 23,444	$ 3,719,893
Short-term notes payable – secured	4,500,000	3,200,000
Accounts payable and accrued liabilities	14,103,964	10,298,214
Current portion of long-term debt (Note 3)	459,727	96,880
Income taxes payable	1,087,623	843,934
	20,174,758	18,158,921
LONG-TERM DEBT (Note 3)	5,330,903	2,077,449
DEFERRED INCOME TAXES	1,021,710	959,108
MINORITY INTEREST IN SUBSIDIARY COMPANY	43,137	33,684
	26,570,508	21,229,162
SHAREHOLDERS' INTEREST		
SHARE CAPITAL (Note 5)		
Authorized		
20,000 4½% cumulative redeemable preference shares, par value $100 each		
2,000,000 cumulative participating Class "A" shares of no par value		
3,000,000 Class "B" shares of no par value		
Issued		
1,050,107 Class "A" shares	2,645,389	2,645,389
1,618,125 Class "B" shares	1,677,187	1,677,187
	4,322,576	4,322,576
CAPITAL SURPLUS, created on redemption of preference shares	774,000	774,000
RETAINED EARNINGS	16,196,938	14,890,520
	21,293,514	19,987,096
	$47,864,022	$41,216,258

Consolidated statement of profit and loss

	39 weeks ended December 28, 1968	43 weeks ended March 30, 1968
Sales of products and services	$150,828,801	$153,964,672
Profit from operations before taking into account the undernoted items (Note 7)	4,973,059	4,572,785
Deduct		
Allowance for depreciation	1,348,382	1,432,903
Debenture interest	83,049	97,407
Bank and other interest	448,143	350,737
Amortization of debenture discount	5,626	6,202
Plant relocation expenses	—	69,052
Net profit on disposal of fixed assets	(33,707)	(66,542)
	1,851,493	1,889,759
Profit before providing for income taxes	3,121,566	2,683,026
Income taxes		
Current	1,555,650	1,370,803
Deferred	62,602	(45,803)
	1,618,252	1,325,000
Net profit for the period	$ 1,503,314	$ 1,358,026

Consolidated statement of retained earnings

	39 weeks ended December 28, 1968	43 weeks ended March 30, 1968
Balance at the beginning of the period	$ 14,890,520	$ 13,344,971
Accumulated deferred income tax charges (net) (Note 4)	—	284,414
	14,890,520	13,629,385
Add		
Net profit for the period, per statement attached	1,503,314	1,358,026
Transfer from reserve for catering contract contingencies	—	100,000
	16,393,834	15,087,411
Deduct dividends on Class "A" shares (Note 5)	196,896	196,891
Balance at the end of the period	$ 16,196,938	$ 14,890,520

Notes to consolidated financial statements at December 28, 1968

1. INVENTORIES

Inventories consist of:

		Comparable figures at March 30, 1968
Raw materials, valued at the lower of cost and replacement cost	$ 4,195,353	$ 3,265,898
Finished goods, valued at the lower of cost and net realizable value	15,910,695	14,881,418
	$20,106,048	$18,147,316

2. PROPERTIES HELD FOR SALE

It is the company's policy to assemble property for future expansion. When development of any location is completed, the property is sold under a lease-back arrangement.

3. LONG-TERM DEBT

Long-term debt consists of:

6% sinking fund debentures, Series "A", maturing November 1, 1977, annual sinking fund instalment $100,000	$ 1,900,000	$ 2,000,000
7¼% note payable to bank, due March 30, 1970, secured	3,000,000	—
Other	951,630	266,329
	5,851,630	2,266,329
Less		
Debentures purchased for sinking fund purposes and deposited with trustee	61,000	92,000
Instalments due within one year	459,727	96,880
	520,727	188,880
	$ 5,330,903	$ 2,077,449

4. ACCUMULATED DEFERRED INCOME TAX CHARGES

The addition to retained earnings of $284,414 during the period ended March 30, 1968, resulted from full adoption by the company of all recommendations of the Canadian Institute of Chartered Accountants concerning accounting for corporate income taxes.

5. SHARE CAPITAL

(a) The company's Class "A" shares entitle the holders thereof to fixed, cumulative, preferential cash dividends of 25¢ per share per annum payable quarterly. Any further dividends on the company's common shares shall be paid firstly to the Class "B" shareholders to the extent of 25¢ per share per annum plus the amount (if any) by which 25¢ exceeds their dividends in the preceding year, and thereafter in equal amounts per share to the Class "A" and Class "B" shareholders.

(b) Included with deferred accounts receivable and sundry investments are 41,133 Class "B" shares in the parent company held by a subsidiary at a cost of $41,133.

6. LONG-TERM LEASES

In addition to the buildings owned and occupied by the companies, three manufacturing plants, thirteen distribution centres and fifty-one retail stores are occupied by them under lease agreements, the majority on a long-term basis. Also, the parent company has entered into long-term leases on fifty-one stores which are sub-leased to independent operators.

As at December 31, 1968 the rentals under lease agreements are payable as follows:

For the five years ending December 31, 1973	$10,212,471
For the five years ending December 31, 1978	9,648,331
For the five years ending December 31, 1983	7,779,979
For the five years ending December 31, 1988	6,508,494
For the five years ending December 31, 1993	3,114,148
Subsequent to December 31, 1993	823,736
	$38,087,159

7. EXECUTIVE REMUNERATION

During the thirty-nine weeks ended December 28, 1968 aggregate remuneration of directors and senior officers amounted to $135,500 ($160,000 for the forty-three weeks ended March 30, 1968).

8. CONTINGENT LIABILITIES

Guarantees, endorsements and commitments amounted to $1,013,000 at December 28, 1968.

Consolidated statement of source and application of working capital

	39 weeks ended December 28, 1968	**43 weeks** ended March 30, 1968
Source		
Operations		
Net profit for the period	$ 1,503,314	$ 1,358,026
Add		
Depreciation	1,348,382	1,432,903
Deferred income taxes	62,602	(45,803)
Amortization of debenture discount	5,626	6,202
	2,919,924	2,751,328
Minority interest in subsidiary company	9,453	19,798
Decrease in special refundable tax	74,606	67,652
Increase in long-term debt	3,253,454	(183,684)
Decrease in deferred accounts receivable	184,904	(444,996)
	6,442,341	2,210,098
Application		
Additions to fixed assets (net)	3,323,483	1,631,503
Excess of cost of shares acquired during the period over net book value thereof, and purchased goodwill	194,968	21,495
Dividends	196,896	196,891
	3,715,347	1,849,889
Increase in working capital	2,726,994	360,209
Working capital at beginning of period	9,061,754	8,701,545
Working capital at end of period	$11,788,748	$ 9,061,754

Auditors' report

To the Shareholders of
Kelly, Douglas & Company, Limited

We have examined the consolidated balance sheet of Kelly, Douglas & Company, Limited and its subsidiary companies at December 28, 1968 and the consolidated statements of profit and loss, retained earnings and source and application of working capital for the thirty-nine weeks then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies at December 28, 1968 and the results of their operations and the source and application of their working capital for the thirty-nine weeks then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal period.

February 18, 1969
Vancouver, B.C.

THORNE, GUNN, HELLIWELL & CHRISTENSON,
Chartered Accountants.

KELLY, DOUGLAS & COMPANY, LIMITED AND SUBSIDIARY COMPANIES

10 year historical summary

FINANCIAL RATIO AND VALUES (thousands of dollars)

Fiscal Year	Current Ratio	Sales to Av. Inventory	A/C Receive. (Av.) – Days	Working Capital	Net Property & Equipment	Total Assets	Shareholders' Investment Total	Shareholders' Investment $ Per Share	Shareholders' Investment Increase
1968 (39 weeks)	1.58-1	10.5	14	$11,788	$13,923	$47,864	$21,293	$7.98	6.5%
1968 (43 weeks)	1.50-1	10.8	14	9,062	11,949	41,216	19,987	7.49	7.8
1967 (full year)	1.50-1	11.2	14	8,702	11,750	39,639	18,542	6.95	9.3
1966 " "	1.59-1	11.2	14	8,825	10,319	35,228	16,971	6.36	6.7
1965 " "	1.79-1	10.0	13	8,774	8,296	28,889	14,770	5.96	7.6
1964 " "	1.78-1	10.6	12	8,363	7,786	27,464	13,715	5.54	6.3
1963 " "	1.63-1	10.1	13	7,319	8,609	28,230	12,856	5.21	5.9
1962 " "	1.93-1	10.1	13	8,044	7,247	24,546	12,167	4.92	6.0
1961 " "	1.95-1	9.8	11	7,840	7,089	23,776	11,456	4.64	7.4
1960 " "	2.10-1	9.5	12	7,598	6,839	21,835	10,592	4.32	8.0

OPERATING (thousands of dollars)

Fiscal Year	Net Sales	Operating Income	*Rental Payments	Debenture Interest	Depreciation Provided	Income Taxes	Net Income	Shareholders' Cash Flow
1968 (39 weeks)	$150,828	$6,063	$1,511	$ 83	$1,348	$1,618	$1,503	$2,919
1968 (43 weeks)	153,965	5,790	1,577	97	1,433	1,325	1,358	2,751
1967 (full year)	173,522	7,202	1,767	126	1,605	1,871	1,833	3,758
1966 " "	154,424	6,148	1,552	130	1,288	1,630	1,548	3,108
1965 " "	130,418	5,205	1,392	138	1,061	1,348	1,266	2,410
1964 " "	119,281	4,624	1,308	145	1,013	1,085	1,073	2,085
1963 " "	113,049	3,982	1,135	150	963	830	904	2,028
1962 " "	106,129	4,104	1,129	159	874	904	1,038	2,012
1961 " "	106,238	4,089	1,036	171	822	1,020	1,040	1,891
1960 " "	102,059	3,732	836	176	758	950	1,012	1,867

*Including Stores Subleased to Independent Operators.

OPERATING RATIOS AND VALUES

Fiscal Year	Operating Margin	*Rent & Debenture Interest Coverage	Net Margin	Return on Average Equity	Earnings Per Share	Increase	Cash Flow Per Share	Dividends Per Class "A" Share
1968 (39 weeks)	4.02%	3.80	1.00%	9.71%	$.56	9.8%	$1.09	$.19
1968 (43 weeks)	3.76	3.46	.88	8.52	.51	(10.7)	1.03	.19
1967 (full year)	4.15	3.80	1.05	10.32	.69	18.4	1.41	.25
1966 " "	3.98	3.65	1.00	9.75	.58	13.7	1.16	.25
1965 " "	3.99	3.40	.97	8.89	.51	18.6	.97	.25
1964 " "	3.88	3.18	.90	8.08	.43	11.9	.84	.25
1963 " "	3.52	3.10	.80	7.23	.36	(14.3)	.82	.25
1962 " "	3.87	3.18	.98	8.79	.42	—	.81	.25
1961 " "	3.85	3.38	.98	9.43	.42	2.4	.77	.25
1960 " "	3.66	3.69	.99	9.95	.41	(24.1)	.76	.25

*Including Stores Subleased to Independent Operators.

NEW NABOB PRODUCTS

Your Company continues its research and development of new products to meet the ever-changing tastes and styles of consumer living.

"Fun Food" is a new word in the grocery marketing industry and Squirrel brand has extended its peanut butter product into a delightful and popular line of treats for youngsters. Favorite combinations such as Peanut Butter and Jam, Peanut Butter and Honey and Peanut Butter and Simulated Bacon are now being offered in one jar for convenience and economy.

Our traditional experience and quality in the spice field has been brought forward with the introduction by Nabob of a complete line of instant sauces, gravies, and seasonings, to match the homemakers' increasing interest in gourmet meals.